

## REVENUE ANALYSIS

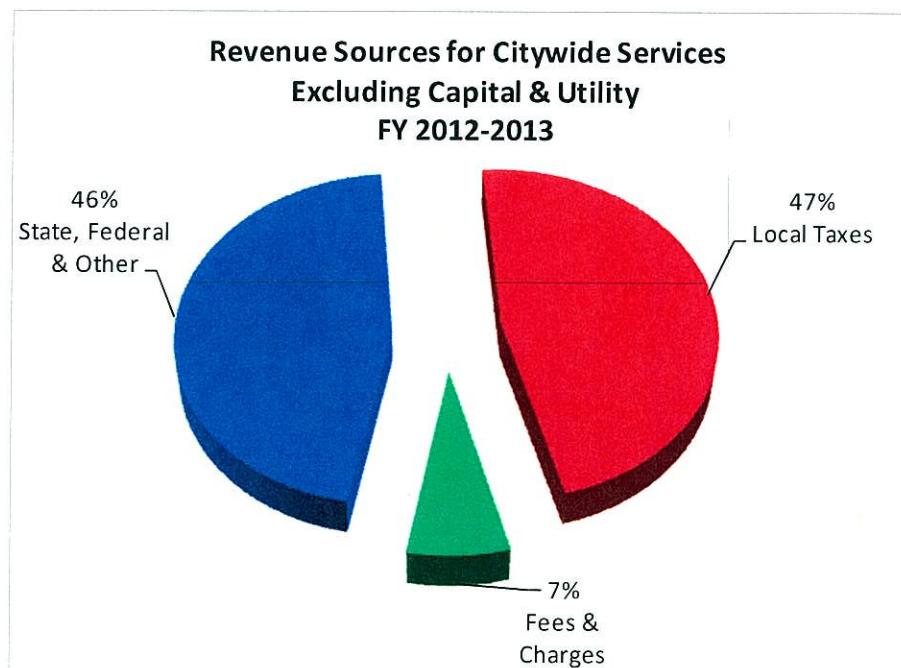
As part of the budget development process, the City must project the revenues that will be available during the fiscal year to provide services to Suffolk's citizens. This section of the operating and capital budget provides an overview of the methods that are used to project revenue, the primary sources of City revenues, the economic conditions impacting local revenues, and a detailed analysis of local revenue projections for FY 2012-2013.

### Revenue Projection Methods

The task of analyzing and projecting revenues is a year-long process performed throughout the fiscal year by the City's Department of Budget and Strategic Planning. As part of this process, the Department monitors and evaluates revenues each month to ensure that enough revenue is available for city departments to meet service demands and carryout the directives of City Council and the City Manager. Detailed quarterly projection reports are provided to the City Manager and City Council. In addition to quarterly revenue projections, the Department analyzes historic trends and monthly/year-over-year revenue collections; evaluates changes in real estate assessed values and tax exemption programs; compiles direct estimates from city departments and state/federal agencies; reviews state and federal legislation that may have an impact on local governments; consults with local officials and department heads to include the City Assessor, the Commissioner of the Revenue, the Treasurer, the Director of Finance, and others on budget related matters of impact and coordinates the preparation of a five year growth model with the City's financial consultant.

### Where Does the Money Come From?

The City derives its revenues from three primary sources: 1) local taxes, 2) fees and charges and 3) state, federal, and other funding. The breakdown of citywide service revenue sources, excluding capital and utility fund revenue, is depicted in the pie chart below. Local tax revenue comprises the largest share of citywide revenue at 47% followed by state, federal and other revenue (46%), and fees and charges (7%).



State and federal funding has declined as a percentage of citywide revenue in recent years. The City is now reliant upon local taxes and fees and charges for a greater percentage of citywide revenue.

**Budgeted Citywide Revenue Sources  
Excluding Capital & Utility  
FY 2009 – FY 2013**

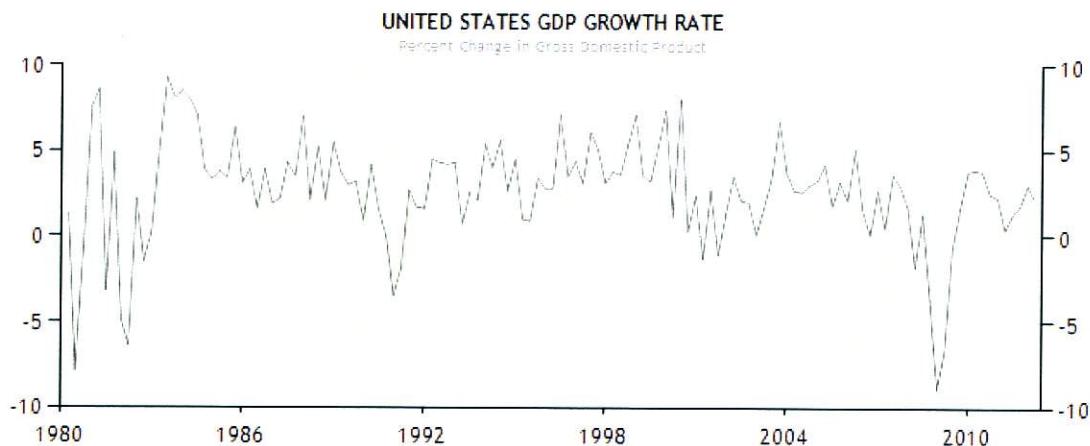
	<b>Local Taxes</b>	<b>Fees &amp; Charges</b>	<b>State, Federal, &amp; Other</b>
FY 2009	44%	5%	51%
FY 2010	44%	4%	52%
FY 2011	45%	4%	51%
FY 2012	45%	7%	48%
FY 2013	47%	7%	46%

## Economic Outlook

Given the City's dependency on revenue from local, state, and federal sources, economic conditions impacting all three levels of government affect city revenues. A summary of the national, state, and local economic outlook is provided in the sections below.

### *The National Economy*

The national economy is slowly recovering from the economic recession. Although the recession officially ended in June 2009, the economy is not back to pre-recession levels. Economic growth has been modest and far less robust than periods following previous recessions. This is illustrated by the chart below which provides an overview of economic growth between 1980 and 2012. In 2010 and 2011, the economy posted growth of 3.1% and 1.7%, respectively. In comparison, economic growth topped 4% after the 1991 recession and 8% following the 1981-1982 recessions.

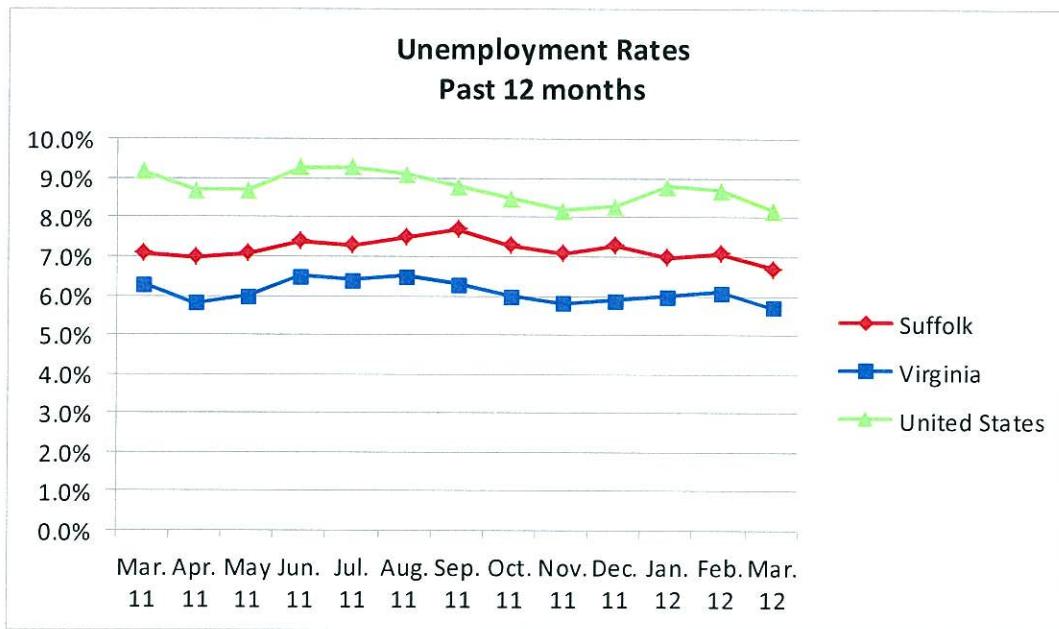


SOURCE: WWW.TRADINGECONOMICS.COM | BUREAU OF ECONOMIC ANALYSIS

Significant economic growth is not expected over the next 12 to 18 months. The job market is not expanding fast enough to dramatically change the employment picture and drive down the unemployment rate. Business investment in equipment and software, production capacity, and buildings is improving, but at a slow pace. Gasoline prices are leveling off, but remain high at nearly \$4 per gallon. The housing market also continues to be constrained by distressed properties. The biggest positive to note is that retail sales are outpacing projections. Consumer confidence and spending are up, but this could be jeopardized if salaries and wages do not improve.

### ***The State Economy***

The state economy is a little more positive. Virginia's unemployment rate is currently 5.7% in March 2012, the lowest in over 3 years. State revenues are exceeding forecasts with strong growth in corporate and personal income tax and sales tax receipts. The official economic forecast for Virginia has been revised upward. The State's general fund revenues are \$83.3M above the official forecast for FY 2012. Nevertheless, the state government is cautiously optimistic and continues to maintain a conservative approach to its fiscal policy. The flow of money to localities has been reduced in recent years and is not expected to increase in the near future.

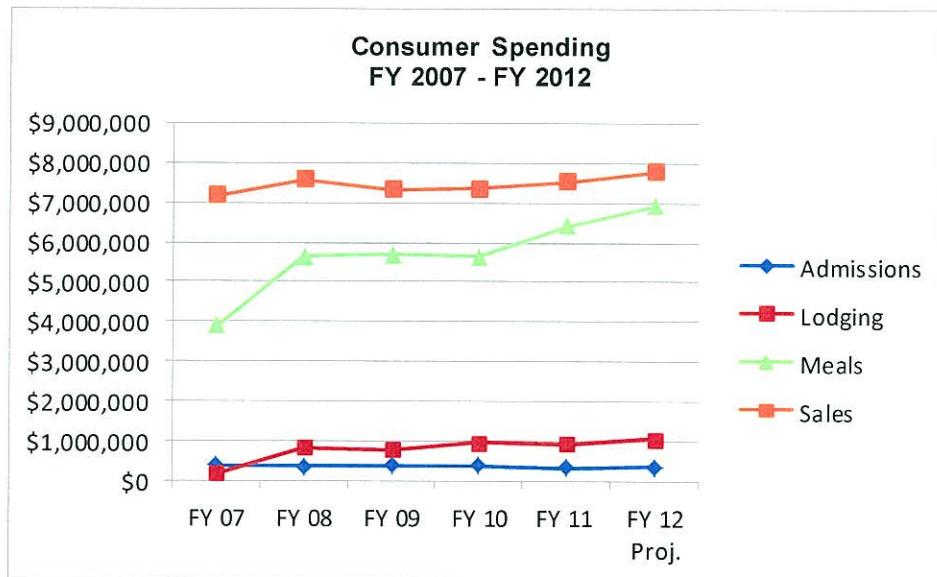


### ***The Local Economy***

The local economy is also showing signs of improvement with strong job creation and investment by the private sector, and increased consumer spending. Suffolk's unemployment rate is down to 6.7% from a peak high of 8.1% in the summer of 2010. The Department of Economic Development announced 980 new jobs and more than \$103M in private investment in 2011. A number of the City's targeted industry sectors are experiencing growth including advanced manufacturing, hospitality, office & administration, medical, modeling, simulation & technology, retail, and warehousing & distribution. Suffolk's high tech, modeling and simulation industry is still an integral part of the local economy despite the closing of the Joint Forces

Command in August 2011. The Department of Defense continues to utilize the former JFCOM campus for high tech training and development of joint, interagency, and multinational capabilities.

The growth of Suffolk's population is also helping to stimulate economic activity in the form of retail sales, meals, and lodging. As more people have moved to Suffolk, the City has successfully attracted new retail, restaurant, and lodging establishments. This trend is expected to continue well into the future.



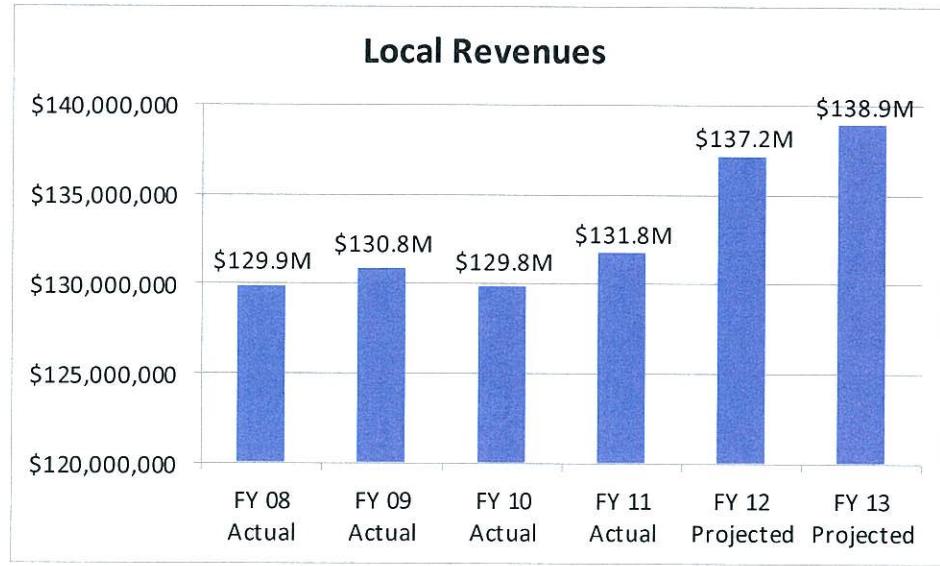
The housing market continues to present the greatest challenge to the local economy. The assessed value of residential properties decreased for the third consecutive year as part of the 2012-2013 reassessment. Assessed values of residential property fell 2.23% in the latest reassessment. The median residential sales price decline to \$243,224 from \$250,000 the previous year. The number of residential sales also dropped 13% in 2011. Foreclosure activity is improving, but the number of distressed properties on the market is still high.

## FY 13 Revenue Projections

### Local Revenue

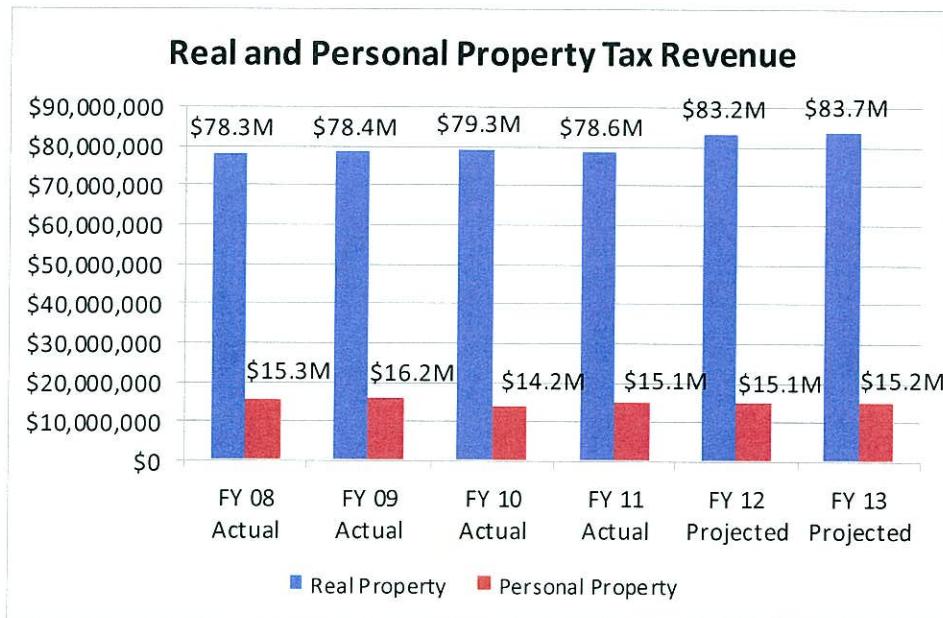
Local tax revenue is comprised of general property taxes (real property, public service corporation taxes, personal property, and penalties and interest) and other local taxes (sales, public facilities rebate, communications sales, utility taxes, business license, motor vehicle license, bank stock, recordation and probate, tobacco, admissions, lodging, and meals). These revenue sources account for approximately 80% of all General Fund revenues.

A 4% increase in local tax revenue is projected in FY 13' to \$138.9 million. Local tax revenues driving this increase include business license (24%), meals tax (20%), public service corporation taxes (16%), utility taxes (13%), and the lodging tax (10%).



### ***General Property Taxes***

General property taxes account for 59% of General Fund revenues and consist of taxes on real estate; personal property including airplanes, boats, cars, trucks, trailers, mobile homes, recreational vehicles and machinery and tools; public service corporation taxes; and penalties and interest. General property tax revenue is projected to increase 2% in FY 13' despite a .62% overall decrease in real estate values. The FY 13' budget includes \$1.2M in revenue from anticipated new construction. Personal property tax revenue is projected to increase 5% or \$700,000 over FY 12' budget figures based on actual collections and trends in FY 12'. Public service corporation tax revenue is also projected to increase in FY 13' by 16% or \$368,000 over FY 12' budget figures. Public service corporation taxes include taxes on electric utilities and cooperatives, gas pipeline distribution companies, public service water companies, telephone and telegraph companies, pipeline transmission companies and railroads.

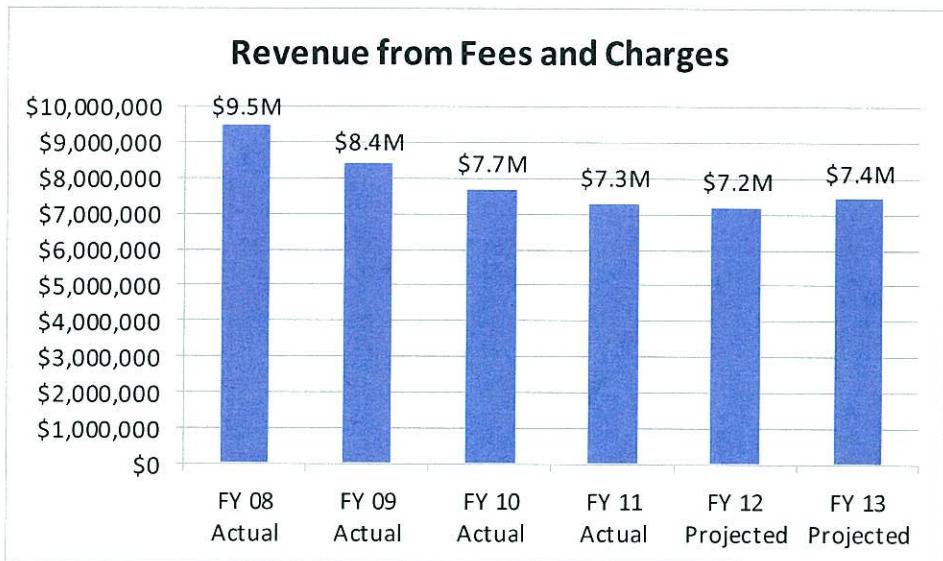


### ***Other Local Taxes***

Other Local Tax revenue is projected to increase 10% or \$3.1M over FY 12' budget figures. Several local taxes are driving this increase. The business license or BPOL tax is projected to increase 24% in FY 13' fueled by the opening of several large businesses in the medical, retail, wholesale trade, and warehouse/shipping sectors. Meals tax revenue is trending higher with the opening of new restaurants and is projected to increase 20% in FY 13'. The utility tax on consumers of electric and gas is also anticipated to increase 13% along with lodging at 10% based on trend growth and new hotels in the Route 17 corridor.

### **Revenue from Fees and Charges**

Revenue from fees and charges accounts for 4% of all General Fund revenue and consists of permits, privilege fees, and regulatory licenses; fines & forfeitures; revenue from the use of money and property; charges for services; miscellaneous revenue; and recovered costs. Revenue from fees and charges has declined over the last five years. However, a 5% increase over FY 12' budget figures is projected in FY 13' based on trend growth.



### ***Permits, Privilege Fees, and Regulatory Licenses***

Revenue from permits, privilege fees, and regulatory licenses consists of revenue from animal licenses, land use applications, land transfers, zoning, use and ordinances, building and weapons permits, borrow pit fees, and fishing and other miscellaneous permits. This revenue source decreased 45% between FY 07' and FY 11' as a result of the housing market decline. However, this revenue source is expected to increase 19% in FY 13'. Building permit revenue, which comprises 78% of all revenues from permits, privilege fees, and regulatory licenses, is exceeding expectations in FY 12' and this trend is anticipated to continue in FY 13'.

### ***Fines & Forfeitures***

Revenue from fines and forfeitures is comprised of General District Court fines, parking fines and violation fees, and false alarm violation fees. Revenue from fines and forfeitures is projected to increase 29% in FY 13' as General District Court fines are trending higher.

### ***Revenue from Use of Money and Property***

Revenue from the use of money and property consists of interest earned on investments, bond proceeds, and the rental of city facilities. A 19% reduction is projected in FY 13' from the use of money and property due. This is primarily due to low interest rates on City investments and bond proceeds.

### ***Charges for Services***

The City receives revenue through charges for services such as emergency medical service, court security, animal adoptions, recreation and special events, grave openings, and sale of service to other City funds. Revenue from charges for services is expected to remain flat in FY 13' at \$3.6M.

### ***Miscellaneous Revenue***

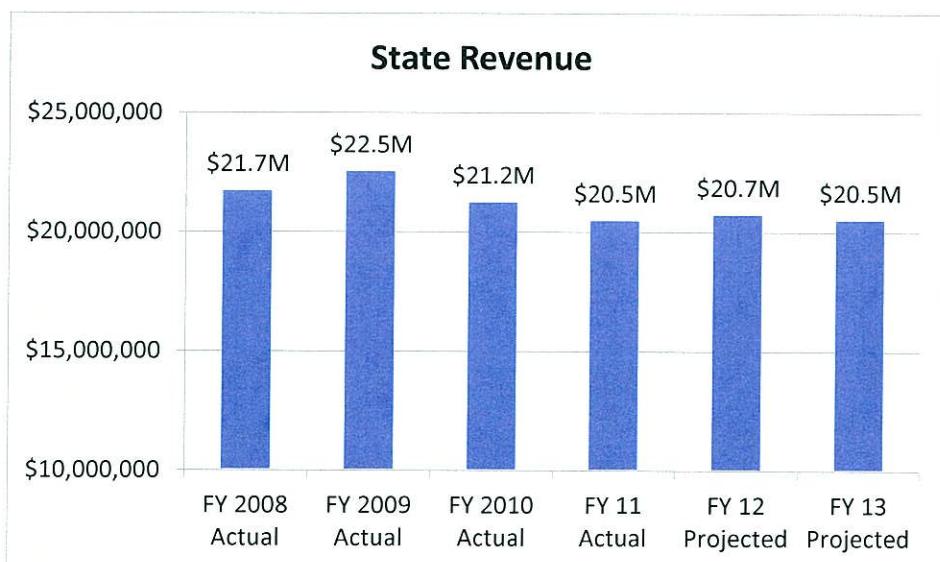
Miscellaneous revenue is comprised of delinquent tax collection fees; tourism gift shop sales; gifts, donations, and contributions and payments in lieu of taxes from the Suffolk Redevelopment and Housing Authority. Miscellaneous revenues are projected to increase 12% in FY 13' as delinquent tax collection fees are exceeding revenue projections.

### ***Recovered Costs***

Recovered costs include reimbursements from other localities, the Suffolk School Board, and the Department of Social Services. Recovered cost revenue is projected to increase 24% in FY 13'.

### **State Revenue**

Revenue from the Commonwealth of Virginia represents 12% of all General Fund revenue and includes non-categorical aid, shared expenses, and categorical aid. State revenue is projected to decrease 1% to \$20.5M in FY 13'.



### ***Non-Categorical Aid***

The City receives various sources of non-categorical aid from the Commonwealth of Virginia including motor vehicle carrier, mobile home titling, rolling stock, deeds/grantors, and vehicle rental tax revenue, as well as House Bill 599 (police operational aid) and personal property tax relief funding. Non-categorical aid is projected to decrease 1% in FY 13' to \$13.4M.

### ***Shared Expenses***

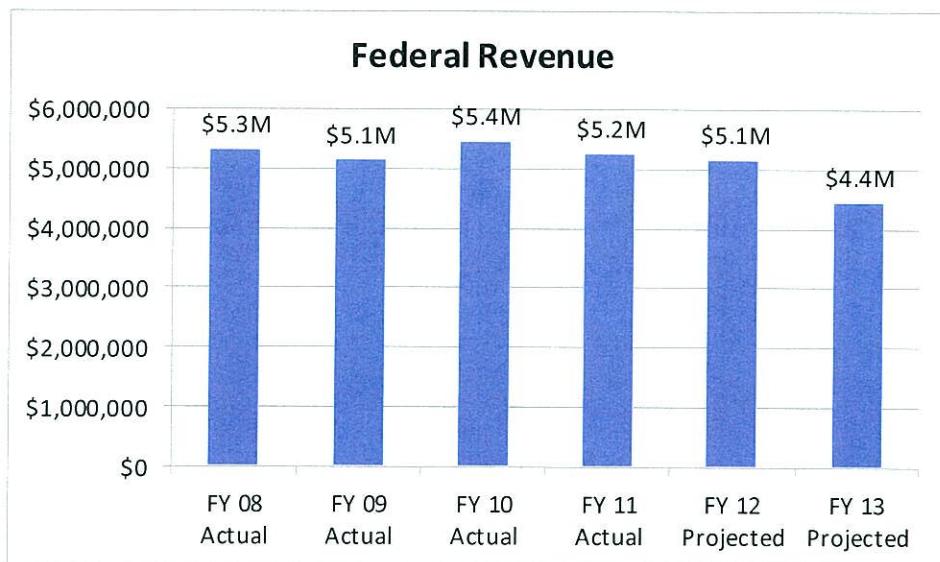
The City receives funding from the Commonwealth of Virginia Compensation Board for the shared expenses of operating state-assisted local offices including the offices of the Commonwealth's Attorney, Sheriff, Commissioner of the Revenue, Treasurer, Voter Registrar, and Circuit Court Clerk. A 1% reduction in state shared expense revenue is projected in FY 13' to approximately 2.6M based on estimates provided by the Compensation Board.

### ***Categorical Aid***

The City receives categorical aid from the State for specific locally administered programs and services including social service programs, public safety, courthouse maintenance, and library services. A 1% decrease in categorical aid is projected in FY 13' to \$4.5M.

### **Federal Revenue**

The City receives Federal revenue for emergency services, the food stamp program, and temporary assistance for needy families. Federal revenue is projected to decline 14% in FY 13' to approximately \$4.5M.



### **Other Funds**

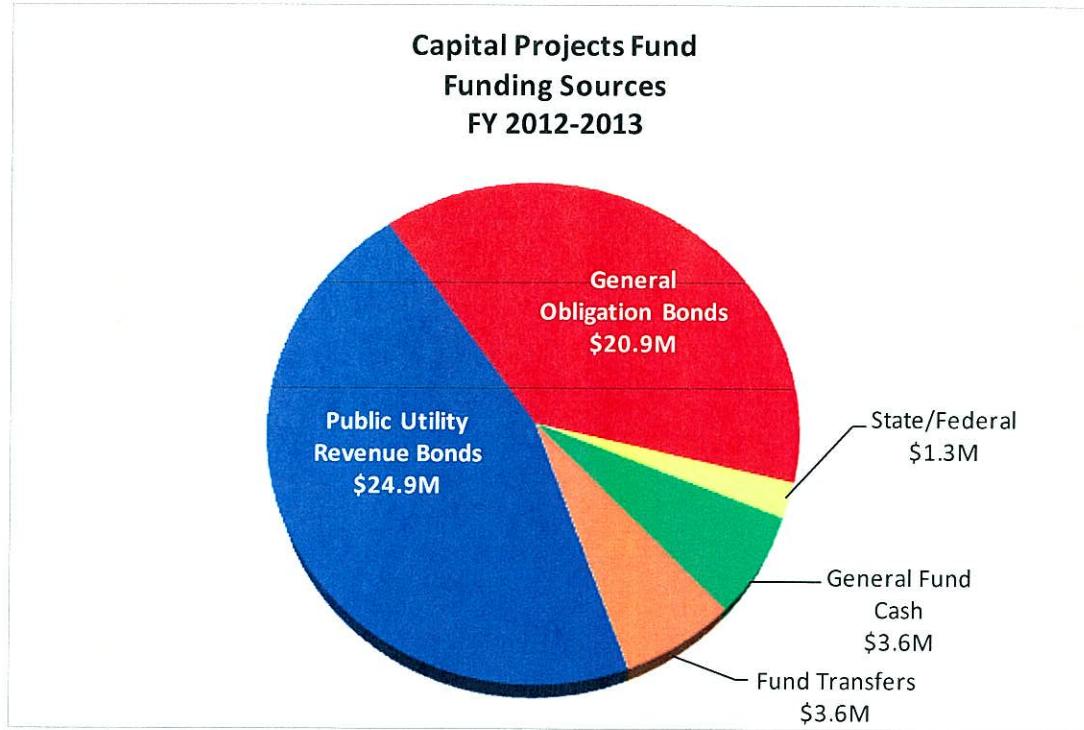
In addition to the General Fund, the City has 16 other funds which account for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. The funds include the Capital Projects Fund, the Debt Service Fund, seven special revenue funds (Aviation, Consolidated Grants, Downtown Business Overlay Taxing District, Road Maintenance, Law Library, Route 17 Special Taxing District, and Transit), three enterprise funds (Utility, Stormwater Utility, and Refuse), three internal service funds (Fleet Management, Information

Technology, and Risk Management), and one discreetly presented component unit, the Schools Fund.

### ***Capital Projects Fund***

The Capital Projects Fund accounts for the financial resources used to acquire or construct major capital facilities other than those normally financed by proprietary fund types. Each year, the City Council adopts a Capital Improvement Plan (CIP) which identifies major capital projects for a 10 year period. Projects identified in the first year of the CIP are recommended for funding in the Capital Projects Fund budget which is adopted by the City Council as part of the budget process.

The Capital Projects Fund budget for FY 13' is \$54.3M or 40% less than budgeted in FY 12'. The Capital Projects Fund derives revenues from the issuance of general obligation and revenue bonds, state and federal grants, and the transfer of funds from the General Fund. The Capital Projects Fund is supported by the following funding sources: \$24.9M public utility revenue bonds, \$20.9M million general obligation bonds, \$3.6M General Fund cash, \$1.3M state and federal funding, and \$3.6M fund transfers via the Risk Fund, Road Maintenance Fund, Route 17 Special Taxing District Fund, and Stormwater Fund.



### ***Debt Service Fund***

The Debt Service Fund is used to account for the payment of general long term debt principal, interest, and related costs associated with projects that are debt financed. Revenues in this fund are derived through the transfer of funds from the General Fund, Route 17 Special Taxing District Fund, and the Consolidated Grants Fund. The Debt Service Fund budget for FY 13' is \$25.6M, a 2% increase over FY 12'.

### ***Special Revenue Funds***

Special Revenue Funds provide for revenue derived from specific sources other than major capital projects that are restricted by legal and regulatory provisions to finance specific activities. The adopted FY 13' budget provides for the addition of the Transit Fund.

#### **Downtown Business Overlay Taxing District**

The Downtown Business Overlay Taxing District (DBOD) provides for revenues and expenditures related to enhanced services provided in a specifically designated area of downtown Suffolk. Revenues are derived from an additional real estate tax levy assessed on properties located within the district's boundaries. The real estate tax levy for FY 13' has been reduced \$.01 to \$.115 per \$100 of assessed value due to the 8.95% growth of assessed values in the district. The DBOD budget for FY 13' is \$220,000, a 10% increase over FY 12'.

#### **Road Maintenance Fund**

The Road Maintenance Fund accounts for revenues and expenditures related to the maintenance of roads and bridges. Revenues are derived primarily from the State Urban Street Maintenance Program. The Road Maintenance Fund budget for FY 13' is \$21.4M, a 7% increase over FY 12' based on the State funding formula which accounts for additional roadway miles in the City.

#### **Consolidated Grants Fund**

The Consolidated Grants Fund is used to account for revenues and expenditures involving governmental grant program operating expenditures. Revenue budgeted in the Consolidated Grants Fund is derived from federal Community Development Block Grant (CDBG) and HOME Grant funds and a transfer of funds from the General Fund, which are used to provide for required local matches to state and federal grants received throughout the fiscal year. The Consolidated Grants Fund budget for FY 13' is approximately \$1.1M, a 22% decrease over FY 12'. This significant reduction is attributable to cuts in federal CDBG and HOME grant funding.

#### **Law Library Fund**

The Law Library Fund provides for the operation, maintenance, and purchase of legal materials for the Suffolk Law Library. Revenues are obtained through the collection of fees on court cases processed in the Circuit and General District courts. The Law Library Fund budget for FY 12' is \$42,012, a 13% increase over FY 12'.

#### **Route 17 Special Taxing District Fund**

The Route 17 Special Taxing District Fund provides for revenues and expenditures related to enhanced economic development and transportation services provided in a specifically designated area of northern Suffolk. Revenues are derived from an additional real estate tax levy assessed on properties located within the district's boundaries. The real estate tax levy for FY 13' has been reduced to \$.25 per \$100 of assessed value due to the 2.3% growth of assessed values in the district. The Route 17 Special Taxing District Fund budget for FY 13' is approximately \$1.9M, a 44% increase over FY 12'. This significant increase is attributable to revenue to be derived from a \$686,196 draw from the committed fund balance in support of capital projects within the district including improvements to the water distribution and transmission system and the intersection of College Drive and Harbour View Boulevard.

### Aviation Facilities Fund

The Aviation Facilities Fund accounts for the revenues and expenditures of the Suffolk Executive Airport. The Aviation Facilities Fund budget for FY 13' is approximately \$1.3M, a 7% increase over FY 12'. The Fund's revenues are comprised of fuel sales (67%), rental of facilities such as airport hangars (18%), miscellaneous revenue to include an airport usage fee (1%), and the transfer of funding support from the General Fund (14%).

### Transit Fund

A Transit Fund has been established in the FY 13' budget to account for the revenues and expenditures of Suffolk's transit service which is outsourced to the Virginia Regional Transit Authority (VRTA) and includes two bus routes and ADA service. In FY 13', the Transit Fund will derive its revenues from the following sources: General Fund transfer (71%), operating and capital funding from the VRTA via state and federal grant funding (25%), and fare collections (4%).

### ***Enterprise Funds***

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of enterprise funds is for the costs of providing goods or services to the general public to be financed or recovered primarily through user charges.

### Utility Fund

The Utility Fund accounts for the provision of water and sewer services to City residents. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operation, maintenance, billing, collections, capital financing and related debt service and fixed assets of the water and sewer systems. The Utility Fund is designed to be self-sustaining. The Utility Fund budget for FY 13' is approximately \$42.9M, a 15% increase over FY 12'. The Utility Fund derives revenues through charges for water and sewer service, water and sewer availability charges, bulk water sales, meter service charges, hydrant rentals, capital contributions from development, capitalized interest, bond rebates, special fees, sale of services, and miscellaneous revenue. Water and sewer rates will increase \$.70 (water) and \$.44 (sewer) in FY 13'. These increases are necessary to address state/federal regulatory mandates and system growth.

### Stormwater Utility Fund

The Stormwater Utility Fund provides for the operation, management, construction and maintenance of stormwater facilities, as well as mosquito control services. A stormwater fee of \$5.24 per month is assessed on all residential units. Commercial businesses pay a multiple of the equivalent residential unit. The stormwater fee is a result of the Federal Clean Water Act of 1972 and amendments thereafter which require cities to make improvements to reduce the amount of pollution from stormwater runoff. No federal or state funding is provided to offset the cost of the water quality measures. The Fund earns additional revenue through permit and inspection fees paid by developers based on a percentage of hard surface coverage required for development and the sale of services such as engineering services to other City funds. The FY 13' budget also provides for revenue from the transfer of funds from the stormwater fund balance to support capital project needs. The Stormwater Utility Fund budget for FY 13' is approximately \$5.3M and flat in comparison to FY 12'.

### Refuse Fund

The Refuse Fund accounts for the revenues and expenditures of the City's refuse collection and recycling services which include citywide refuse, recycling, and bulk refuse pickup and landfill post closure planning and management. The Fund is designed to be self-sustaining through revenue generated by a \$17.50 per month fee for refuse collection, the sale of trash cans, and sale of service to other City funds. The Refuse Fund budget for FY 13' is approximately \$5.9M, a 15% reduction over FY 12'.

### ***Internal Service Funds***

Internal service funds are used to account for the operational cost of services provided to other city departments. Revenue is derived from charges on a cost reimbursement basis. The internal service funds include the Fleet Management Fund, Information Technology Fund, and Risk Management Fund.

### Information Technology Fund

The Information Technology Fund accounts for the City's technology infrastructure including central computer and telephone systems. The cost of operating these systems is allocated to the various city departments and agencies on a cost reimbursement basis. The Information Technology Fund budget for FY 13' is approximately \$4.8M, a 10% increase over FY 12'.

### Fleet Management Fund

The Fleet Management Fund provides for the financing of vehicles and the maintenance, repairs, and fuel costs of the City. Operating costs are allocated to the various city departments and agencies including the Western Tidewater Community Services Board, Suffolk Health Department, Western Tidewater Regional Jail, and Suffolk Public Schools, who use fleet equipment on a cost reimbursement basis. The Fleet Management Fund budget for FY 13' is approximately \$12.9M, a 5% increase over FY 12'.

### Risk Management Fund

The Risk Management Fund provides for the funding and payment of auto, police liability, general liability, health and worker's compensation claims against the City, exclusive of the Suffolk Public Schools' employees. Charges to other funds are based on estimated claims for the year. The Risk Management Fund budget for FY 13' is approximately \$18.2M, a 6% increase over FY 12'.

### ***Discretely Presented Component Unit***

Discretely presented component units are reported separate from the primary government to emphasize that they are legally separate from the City. The Schools Fund is a discretely presented component unit.

### Schools Fund

The Schools Fund provides for the activities of the Suffolk Public School System. The appropriation by the City consolidates the funding for the existing three School funds including the School Operating Fund, School Food Service Fund, and School Grants Fund. Revenues of the School Operating Fund are derived from local, state, federal, and other sources. The School Operating Fund budget for FY 13' is approximately \$138.3M, a 1% reduction over FY 12'. This reduction is due to a 5% reduction in state and federal funding. Local funding support for the

school division has been increased \$3M or 7% over FY 12'. An additional \$2M in local funding will also be provided to the school division via "one time" funds in FY 12'. As shown in the chart below, local support of schools is approximately 34% of all Schools Fund revenue, not including the additional \$2M in "one time" funding to be provided in FY 12' for use by the school division in FY 13'.

